

ANNUAL REPORT
of
THE CINCINNATI AND SUBURBAN
BELL TELEPHONE COMPANY
for the Year 1946

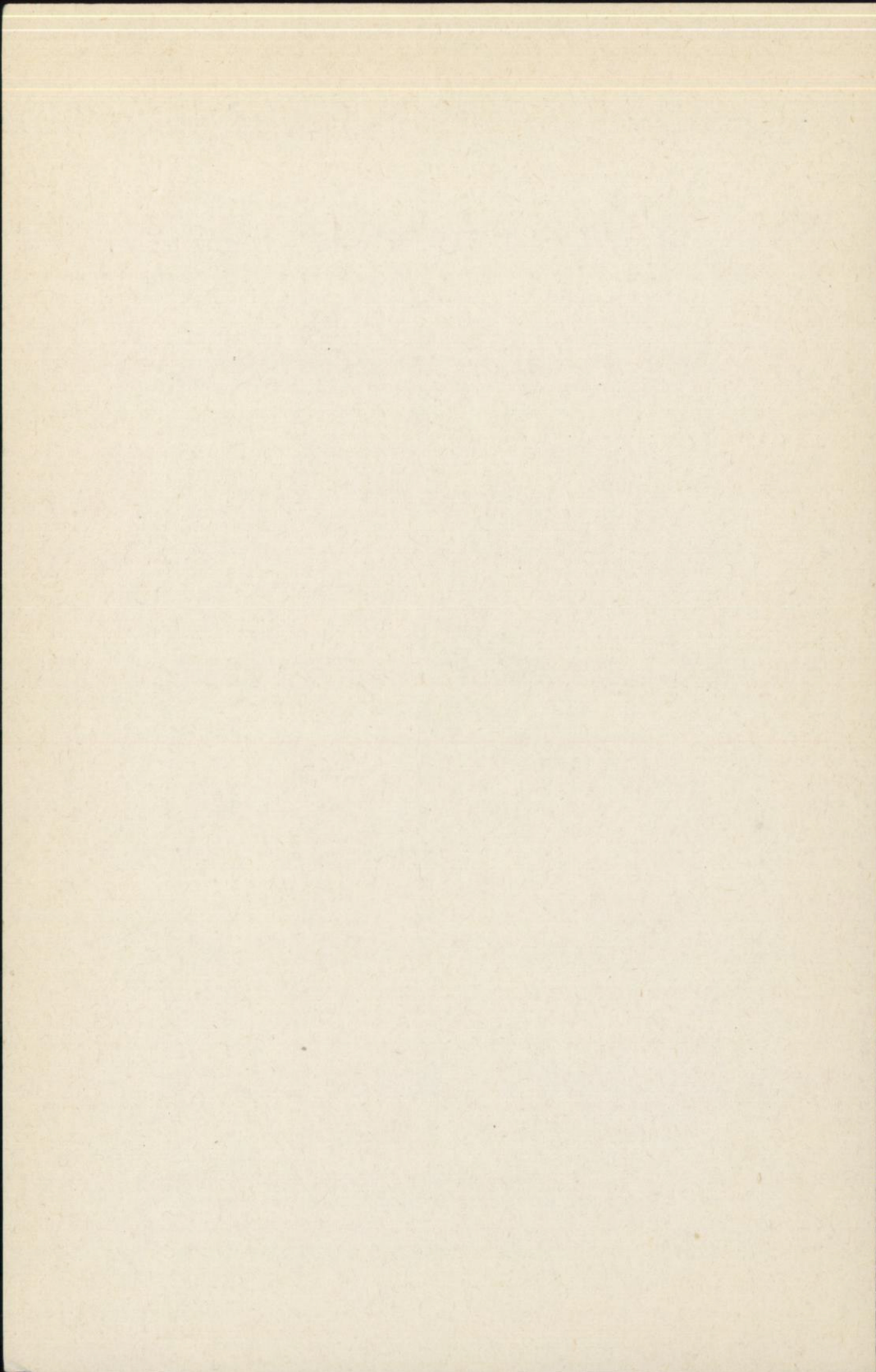


225 East Fourth Street
Cincinnati 2, Ohio

BOARDS

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The Cincinnati and Suburban Bell Telephone Company

225 East Fourth Street
Cincinnati 2, Ohio.

DIRECTORS

*Archibald J. Allen	*Bayard L. Kilgour, Jr.
John J. Becker	*Charles J. Livingood
Richard R. Deupree	*Stuart B. Sutphin
*Charles W. Dupuis	Raymond A. Weaver

*Members of the Executive Committee

OFFICIALS

B. L. KILGOUR, JR. <i>President</i>	B. S. WAGNER <i>Chief Engineer</i>
R. A. WEAVER <i>Vice President</i>	T. E. GREEN <i>General Commercial Manager</i>
O. A. FRANK <i>Vice President</i>	H. P. JOHNSTON <i>General Plant Manager</i>
D. M. ARNETTE <i>Secretary and Treasurer</i>	O. W. MILLS <i>General Traffic Manager</i>
H. W. HECKLE <i>General Auditor</i>	C. M. JACOBS <i>General Counsel</i>

REPORT OF THE DIRECTORS
OF
THE CINCINNATI AND SUBURBAN BELL TELEPHONE
COMPANY

FOR THE YEAR 1946

TO THE SHAREHOLDERS:

The year ended with a net gain of 32,718 telephones, more than double the previous highest year, which was 1941 when 14,401 telephones were added, and more than three times the average net gain of 9,245 for the five years just preceding the war.

This record was accomplished although subject to certain U. S. Government orders and despite the fact that shortages existed throughout the whole telephone plant thereby causing certain makeshift arrangements to be utilized until material already ordered can be received to alleviate this situation.

As stated in last year's report regarding the necessary steps being taken to improve telephone service, the Company has added facilities wherever obtainable and whenever possible as well as extending service to rural areas not previously served during the war. Such deliveries of equipment of all kinds have been slower, due to strikes and other causes, than was anticipated, as is true in most other enterprises. The shortages in basic raw materials such as lead, copper and cotton yarn are particularly serious to telephone manufacturing companies such as the Western Electric Company, Inc., which furnishes the majority of our facilities. This, in turn,

has delayed giving prospective customers individual lines and extensions when they desire that kind of service until the telephone plant has been expanded and is sufficient to give service to those already waiting at the present time.

Partial installations of two new dial central offices, DUNbar and JUNiper, were started in existing buildings and, in addition, telephone lines and switchboard positions were added wherever and as rapidly as possible to all present exchanges throughout our territory.

New records were established in long distance calls as well as the number of local calls handled. Such increases were one of the main reasons why customers sometimes may have received slower dial tone or the operator's response. Advertising throughout the year informed the public of this condition. Again, until facilities are available, this condition will continue during certain peak loads on the equipment.

For the near future, property has been acquired, both land and buildings, for the Company's expansion already engineered but awaiting the necessary building materials upon which we are dependent. The largest of these is a site on Plainville Road for a new BRamble dial central office. Several garage sites were also purchased and a lease with a contract to purchase the new Telephone Annex Garage at 325 Sycamore Street was consummated which, it is hoped, will be of assistance in our relations with the public when alterations can be accomplished, as well as necessary expansion for office space. Much needed remodeling was done in many of the Company's buildings in advance to prepare space for new equipment.

In addition to these improvements, a large scale construction program over the next several years will be necessary not only to meet the depleted plant margins but also to provide the necessary expansions to the service. It is contemplated that the Company's dial conversion schedule, which was stopped early in 1942, will be completed. Such a program, if carried out to completion during this period, would indicate the necessity of raising approximately \$15,000,000 of new capital, part of which may be needed in 1947.

In November, the Company, with the approval of the Public Utilities Commission of Ohio, purchased the remaining shares of The Harrison Telephone Company so that it now owns all the common stock of that Company. No immediate change is contemplated in the operations of that Company.

Telephones in Service

During the year 55,366 telephones were connected, 22,648 disconnected and 19,631 moved to new locations. Telephones in service at the end of the year totaled 279,609, which made the increase of 32,718 over December 31, 1945. Demand for service continued on an abnormal basis during the year and despite the record breaking number of installations of new telephones, there were 9,842 unfilled applications for service on file at the end of the year compared with 13,951 at the end of 1945. All requests for service received prior to 1946, however, had been completed by the end of last September. Of the total telephones in service, there were 221,946 or 79 per cent being dial

operated and the remaining 21 per cent manually operated.

Rural Telephone Service

There are approximately 18,300 business and residential establishments in the rural territory operated by the Company. At the close of 1946, these establishments were served by 11,500 telephones. This indicates a development of 62 per cent which compares favorably with metropolitan experience. Despite shortages of materials and equipment, there was a net increase of 2,047 telephones in rural territory during the year. These telephones are included in the total net gain of 32,718 telephones mentioned elsewhere in this report. Rural construction required the erection of 3,012 poles and 1,706 miles of wire.

Within the limits imposed by shortages, the program to extend our lines to rural localities, where telephone service was not heretofore readily obtainable, was vigorously carried on even to the point of employing contractors to speed the necessary construction.

Mobile Telephone Service

During the fall, the Company received authority from the Federal Communications Commission to furnish, on an experimental basis, two-way urban and highway telephone service to motor vehicles as well as vessels operating in this Company's territory.

This new service enables the operators of such vehicles and vessels suitably equipped with radio transmitting

and receiving equipment, to inter-connect with any telephone in the country through the medium of the Company's telephone central office while traveling on city streets, country highways or on the Ohio River. Such calls are handled partly over certain assigned radio channels.

At the end of the year, there were 56 motor vehicles and vessels receiving this service and orders for 27 more such installations had been received.

Revenue, Expenses and Earnings

Total operating revenues for the year 1946 were \$16,702,560, an increase of \$1,430,364, or 9.4 per cent, over 1945.

Total operating expenses, excluding taxes, amounted to \$10,373,769, an increase of \$1,795,267, or 20.9 per cent, over 1945. Higher wages account for the greater part of this increase.

Operating taxes applicable to the year 1946 were \$2,965,400, a decrease of \$1,105,000, or 27.1 per cent, from 1945. This decrease resulted from the repeal of the so-called Federal Excess Profits Tax and a reduction in taxable income. In addition, certain taxes levied directly on the users of telephone service are collected by the Company and turned over to the taxing authorities. Such taxes amounted to \$3,318,000 in 1946.

The net income available for dividends amounted to \$3,033,047, and dividends in the amount of \$2,719,944 were declared during the year.

Plant and Equipment

Expenditures for new construction amounted to approximately \$5,396,000, an increase of about \$4,016,000 over 1945. Including reused equipment and materials, gross additions to the plant totaled \$6,378,563 compared with \$2,343,615 in 1945. After deducting the cost of plant retired, net additions to plant were \$4,877,432 compared with \$1,013,014 last year.

The total investment in telephone plant in service at the end of 1946 was \$55,670,586 or \$199 per telephone compared with \$223 per telephone before the war. This decline in plant per telephone was abnormal and was caused by the utilization of the plant beyond normal engineering standards for flexibility in order to serve the maximum number of subscribers.

Personnel

At the end of the year there were 2,888 employees on the payroll, compared with 2,209 at the end of 1945 and 2,006 at the end of 1944.

The total payroll for 1946 was \$7,195,530, which was an increase of \$1,780,972, or 32.9 per cent, over 1945 and \$2,382,568, or 49.5 per cent, over 1944. This increase in total payroll reflects the substantial increases in basic wage rates which have been made throughout all departments. The newly hired operator or clerk now receives as a minimum \$27.50 for a forty hour week as compared to \$19.00 in 1944.

Relations with our employees regarding labor matters has resulted in no serious work stoppages. As previously

stated in the 1945 annual report a sympathy strike, in support of the Western Electric Company's installation employees, occurred on January 13, 1946. Again a work stoppage regarding the terms in a proposed contract was narrowly averted on March 7, 1946. During the remainder of the year no problems have arisen which have not been satisfactorily settled between the representatives of our employees and management. The present agreement between the Union and the Company continues in effect to March 29, 1947.

The organization has worked earnestly and effectively throughout the year. Its resourcefulness and willingness to work longer hours made possible the record volume of business previously mentioned, in spite of the continued shortages in materials and equipment.

Particular commendation is due the supervisory personnel who have put to the fullest use the facilities at its disposal.

Employees' Benefit Plan

For the thirty-third year the Plan for Employees' Pensions, Disability Benefits and Death Benefits continued to play an important part in the efficient operation of the business and to assist employees and their families in meeting the problems of sickness, accident and death as well as providing a substantial degree of financial security to those who have retired from active service.

Payments under the Plan to employees for sickness, accident and death benefits during 1946 amounted to \$148,200. This amount does not include \$64,408

paid for time lost by employees during the first seven days of absence due to sickness, which period is not covered by the Plan.

Service pensions paid by the Trustee from the Pension Trust Fund to retired employees amounted to \$170,714. The report of the Trustee of the Pension Fund is shown on page 16.

Organization Changes

On May 1, 1946, Mr. A. J. Allen, President of the Company for the past nine years, retired after thirty-nine years of service in the telephone business. Mr. B. L. Kilgour, Jr., Vice President, was elected to succeed Mr. Allen. Mr. R. A. Weaver, formerly General Plant Manager, was elected Vice President in charge of operations on March 4, 1946, and a member of the Board of Directors on April 1, 1946.

Public Cooperation

This report would not be complete without an expression of appreciation for the cooperation and understanding shown by the general public whose telephone needs have not been fully met. The Directors give assurance that everything possible is being done, and will continue to be done, to restore the entire service to its pre-war speed and efficiency as quickly as possible.

For the Board of Directors,

B. L. KILGOUR, JR.,
President.

February 7, 1947.

CERTIFICATE OF AUDIT

The Cincinnati and Suburban Bell Telephone Company,
Cincinnati, Ohio.

We have examined the consolidated balance sheet of The Cincinnati and Suburban Bell Telephone Company and Citizens Telephone Company as at December 31, 1946, and the related consolidated statements of income and surplus for the year 1946, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the financial statements, (pages 11 to 15) present fairly the consolidated position of The Cincinnati and Suburban Bell Telephone Company and Citizens Telephone Company at December 31, 1946, and the consolidated results of their operations for the year 1946, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LYBRAND, ROSS BROS. & MONTGOMERY

Cincinnati, Ohio.
January 29, 1947.

FINANCIAL STATEMENTS

The Consolidated Financial Statements which follow on pages 12 to 15, inclusive, consolidate the accounts of The Cincinnati and Suburban Bell Telephone Company and Citizens Telephone Company. The latter Company operates the Kentucky properties of The Cincinnati and Suburban Bell Telephone Company under a lease which provides that all net earnings of the lessee shall accrue to the lessor as rent.

The accounts of these Companies have been maintained in accordance with Uniform Systems of Accounts prescribed for Telephone Companies by Federal authorities since January 1, 1913 — originally by the Interstate Commerce Commission and since July, 1934 by the Federal Communications Commission. The presently prescribed accounting requires, with certain exceptions, that the accounts for telephone plant show the original cost of property at the time of its first dedication to the public use, whether by the accounting company or by a predecessor owner. The total shown for "Telephone Plant" in the Balance Sheet represents such original cost, which is substantially the cost of the plant to the Company.

H. W. HECKLE,
General Auditor.

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
AND CITIZENS TELEPHONE COMPANY

Comparative Consolidated Balance Sheet

ASSETS

	<u>Dec. 31, 1946</u>	<u>Dec. 31, 1945</u>
Plant and Other Investments:		
Telephone Plant (See page 11)	\$56,474,385	\$51,596,954
Comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, office furniture, vehicles, tools, etc. At December 31, 1946, this property was classified in the accounts as follows:		
Telephone plant in service	\$55,670,586	
Telephone plant under construction	768,760	
Property held for future telephone use	35,039	
Investment in Subsidiary Company	65,977	32,937
Capital stock, at cost.		
U. S. Tax Refund Bonds	—	234,538
Total Plant and Other Investments	<u>56,540,362</u>	<u>51,864,429</u>
Current Assets:		
Cash	1,967,332	1,282,119
Temporary Cash Investments	2,000,000	6,243,000
United States Treasury Savings Notes, at cost.		
Special Cash Deposits	22,852	32,495
Working Funds	12,635	10,935
Accounts Receivable	1,684,174	1,622,383
Amounts due for service (less reserve for uncollectible accounts), toll settlements, interest, dividends, rents and miscellaneous items.		
Material and Supplies	523,698	335,416
Principally for construction and maintenance purposes.		
Total Current Assets	<u>6,210,691</u>	<u>9,526,348</u>
Deferred Charges:		
Prepayments	89,667	44,475
Rents, taxes, insurance, cost of directories, and other expenses prepaid and applicable to periods after close of year.		
Other Deferred Charges	59,921	32,657
Total Deferred Charges	<u>149,588</u>	<u>77,132</u>
Total Assets	<u>\$62,900,641</u>	<u>\$61,467,909</u>

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
AND CITIZENS TELEPHONE COMPANY

Comparative Consolidated Balance Sheet

LIABILITIES

Dec. 31, 1946 Dec. 31, 1945

Capital Stock:

Common Stock—par value (\$50 per share)	\$30,221,600	\$30,221,600
(Authorized, 1,000,000 shares; outstanding, 604,432 shares.)		
Premium on Capital Stock	72,756	72,756
Amount received in excess of par value.		
Total Capital Stock	30,294,356	30,294,356

Notes Sold to Trustee of Pension Fund	497,414	666,143
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Demand notes held by Trustee as an investment of pension trust funds not presently required to meet pension payments — see page 16. Under present arrangements with the Trustee, it is expected that approximately \$190,000 of these notes will be retired during 1947.

Current and Accrued Liabilities:

Advance Billing for Service, and Customers' Deposits	477,516	431,925
Accounts Payable and Other Current Liabilities	1,817,454	1,328,629
Amounts owing for payrolls, supplies, toll settlements, and miscellaneous items.		
Taxes Accrued but not Due	2,643,801	3,672,064
Dividend Declared	683,008	513,767
Total Current and Accrued Liabilities	5,621,779	5,946,385

Deferred Credits	6,059	7,152
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Depreciation Reserve	21,479,985	19,865,928
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Provision to meet loss of investment in depreciable plant upon its ultimate retirement from service.

Unappropriated Surplus (See page 15) ...	5,001,048	4,687,945
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Total Liabilities	\$62,900,641	\$61,467,909
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H. W. HECKLE,
General Auditor.

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
AND CITIZENS TELEPHONE COMPANY

Comparative Consolidated Income Statement

	Year 1946	Year 1945
LOCAL SERVICE REVENUES	\$13,285,436	\$12,132,364
TOLL SERVICE REVENUES	2,858,328	2,715,721
MISCELLANEOUS REVENUES	563,890	430,149
Revenues from directory advertising, rents and miscellaneous sources.		
LESS—UNCOLLECTIBLE OPERATING REVENUES	5,094	6,038
Provision for revenues which may be uncollectible.		
Total Operating Revenues	<u>16,702,560</u>	<u>15,272,196</u>
CURRENT MAINTENANCE	3,006,856	2,482,587
Cost of inspection, repairs, and rearrangements required to keep the plant and equipment in good operating condition.		
DEPRECIATION EXPENSE	1,873,687	1,794,516
Provision to meet loss of investment when depreciable plant is retired from service, based on rates for the different classes of property which are designed to spread this loss of investment uniformly over its service life. Represents approximately 3.8% of average investment in depreciable plant in service.		
TRAFFIC EXPENSES	2,607,336	1,945,584
Costs incurred in the handling of messages, principally operators' wages.		
COMMERCIAL EXPENSES*	1,070,832	824,729
Costs incurred in business relations with customers; pay station commissions; also the cost of directories, advertising, etc.		
OPERATING RENTS	43,085	38,776
Rents for the use of buildings, poles, conduits and other facilities.		
GENERAL AND MISCELLANEOUS EXPENSES:		
Executive and Legal Departments	177,012	144,851
Accounting and Treasury Departments	635,136	522,024
Provision for Employees' Service Pensions (a)	451,135	276,095
Employees' Sickness, Accident, Death and Other Benefits	156,570	136,952
Services Received Under License Contract	235,780	217,876
Other General Expenses	275,079	275,265
Less: Expenses Charged Construction	158,739	80,753
Total Operating Expenses	<u>10,373,769</u>	<u>8,578,502</u>
Net Operating Revenues (Carried Forward)	<u>\$ 6,328,791</u>	<u>\$ 6,693,694</u>

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
AND CITIZENS TELEPHONE COMPANY

Comparative Consolidated Income Statement (Continued)

	<u>Year 1946</u>	<u>Year 1945</u>
Net Operating Revenues (Brought Forward)	\$ 6,328,791	\$ 6,693,694
OPERATING TAXES:		
Federal Taxes on Income		
Income Taxes	1,787,000	1,352,000
Excess Profits Taxes	—	1,639,000
Other Taxes — principally State, local and Social Security	1,178,400	1,079,400
Total Operating Taxes	<u>2,965,400</u>	<u>4,070,400</u>
Net Operating Income	3,363,391	2,623,294
OTHER INCOME	103,787	69,582
Dividends, interest and miscellaneous income.		
MISCELLANEOUS DEDUCTIONS FROM		
INCOME (a)	<u>410,494</u>	<u>366,504</u>
Income Available for Fixed Charges ..	3,056,684	2,326,372
INTEREST DEDUCTIONS	23,637	29,414
Net Income	<u>\$ 3,033,047</u>	<u>\$ 2,296,958</u>

- (a) Total current accruals for employees' service pensions amounted to \$529,865 for 1946 and \$368,624 for 1945, of which amounts \$78,730 for 1946 and \$92,529 for 1945 were charged to Miscellaneous Deductions from Income in order to comply with accounting requirements of the Federal Communications Commission. The Companies and their independent public accountants consider that these latter amounts were, in fact, current operating expenses. Additional amounts of \$315,000 for 1946 and \$240,000 for 1945 were paid into the Pension Fund and charged to Miscellaneous Deductions from Income.

Consolidated Statement of Unappropriated Surplus
Year 1946

Balance — December 31, 1945	\$ 4,687,945
Net Income (from Income Statement) ...	\$ 3,033,047
Dividends Declared	<u>2,719,944</u>
Net Increase	313,103
Balance — December 31, 1946	<u>\$ 5,001,048</u>

H. W. HECKLE,
General Auditor.

Trustee's Report of Pension Trust Fund

established by

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
AND CITIZENS TELEPHONE COMPANY

Balance in Fund—December 31, 1945	\$ 3,424,928.61
Additions to Fund During 1946—	
Payments into Fund by Company	\$ 844,865.00
Interest Revenue, including gain or loss on investments disposed of	105,681.13
Total Additions	<u>\$ 950,546.13</u>
Disbursements for pensions during 1946	170,713.61
Net Increase in Fund	<u>779,832.52</u>
Balance in Fund—December 31, 1946	<u><u>\$ 4,204,761.13</u></u>

Comprised of —

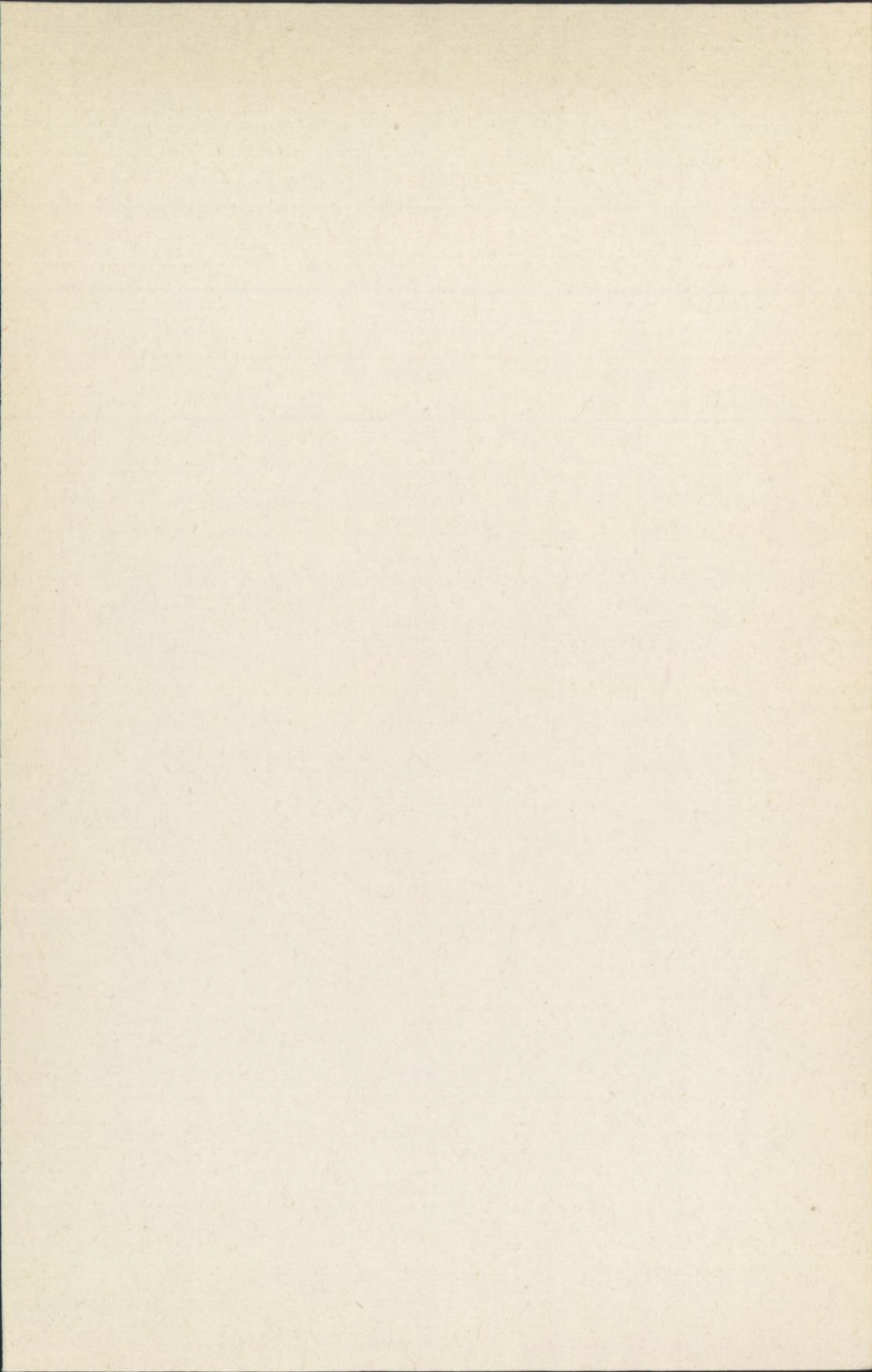
4% Demand Notes of The Cincinnati and Suburban Bell Telephone Company	\$ 497,413.95
Bonds of Bell Telephone Companies	316,103.90
U. S. Government Obligations	1,656,054.05
Public Utility, Railroad and Industrial Bonds ...	1,485,235.20
Cash and accrued interest not due	249,954.03
Total	<u><u>\$ 4,204,761.13</u></u>

NOTE: Securities are shown on amortized basis.

BANKERS TRUST COMPANY, *Trustee*

By W. B. DUNCKEL
Vice President

New York, N. Y.—January 23, 1947





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